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NEA/FO FOR DANIN; NEA/IPA FOR SACHAR, GOLDBERGER, SHAMPAIN; EEB/IFD  
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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [IS](#)

SUBJECT: BANK OF ISRAEL INTERVENES TO HALT DOLLAR FREE FALL

11. (U) On Thursday, March 13, the Bank of Israel (BOI) intervened in the foreign exchange market to purchase dollars. This is the first time since June 1997 that the BOI has staged such an intervention, and followed several pronouncements over the past few months that it would not interfere in the actions of the free market, adding the caveat "as long as the market was functioning properly." However, the dollar's free fall in the last few days from 3.60 NIS on March 7 to as low as 3.35 NIS on March 13 - the lowest it has been in ten years, caused BOI Governor Stanley Fischer to change his mind and intervene. The intervention followed the market's close at 3.403 on March 13, down from 3.482 on March 12, 3.515 on March 11, and 3.5777 on March 10. On March 14, the BOI intervened again, causing the dollar to rally and settle at 3.474. For some additional perspective, the average representative rate was NIS 4.4878 to the dollar in 2005, NIS 4.4565 in 2006, and NIS 4.1081 in 2007. The shekel-dollar rate stood at 3.846 on December 31, 2007, at 3.625 on January 31, 2008, and at 3.635 on February 29. 12008.

12. (U) The BOI has not commented publicly on its action, except for issuing a very short March 13 press release, announcing that in light of the extreme behavior of the shekel exchange rate in the past few days, it would purchase foreign currency during trading. The announcement did not indicate the magnitude of the purchase, but assessments are that the purchases over the last two days ranged between USD 300 - USD 500 million. Although a rather small amount, the purchases served the intended purpose of signaling that the BOI was paying close attention and wanted the dollar decline to stop. Press reports indicate that the BOI was more concerned with the continuous free fall nature of the decline than with the particular level of the shekel-dollar exchange rate. The Tel Aviv Stock Exchange reacted negatively to the dollar's continued fall, closing down 3.6 percent on March 13, with the Tech Index going down by 6.1 percent, and the Real Estate Index by 5 percent, although some of the decline was due to general international stock market weakness.

13. (U) The precipitous fall in the value of the dollar this week finally compelled the GOI to do what it had been resisting for a long time - working on an assistance package for exporters who are being hurt by the strong shekel. Exporters who sell largely to the U.S. had been trying for months to get the BOI to intervene to halt the decline of the dollar -- whether by buying dollars or lowering interest rates - and to convince the government to give them financial help. The government has now acted in all three areas, although the 0.5 percent interest rate cut on February 25 did not halt the dollar's decline. According to press reports, government representatives met this week with the Israel Manufacturers Association to start negotiating a deal to aid exporters. While representatives of the Ministry of Finance and the Ministry of Industry, Trade, and Labor still refuse to comment on the negotiations, some reports indicate that the package will involve financial aid for export promotion and government guaranteed bank

loans for exporters.

JONES